

# Communicating about COVID-19 through the auditor's report in 2021

The COVID-19 pandemic remains an unprecedented challenge for humanity and for the economy globally, also in 2021, and its ongoing impact is subject to significant levels of uncertainty.

**While a number of vaccines have been approved, the virus – and certain mutations – still have a significant effect on society resulting in several governmental measures impacting people and businesses, and not only in the short term. The pandemic is expected to have a lasting impact on certain business practices for the longer term as well, including remote working, business travel and supply chain design.**

For 2020 financial statements, COVID-19 developments are part of the events of the financial year, and, as a result, the impact on the financial statements will be different compared to 2019. For 2019 financial statements COVID-19 typically was considered a non-adjusting subsequent event, given that it was declared a global pandemic by the World Health Organisation on 11 March 2020.

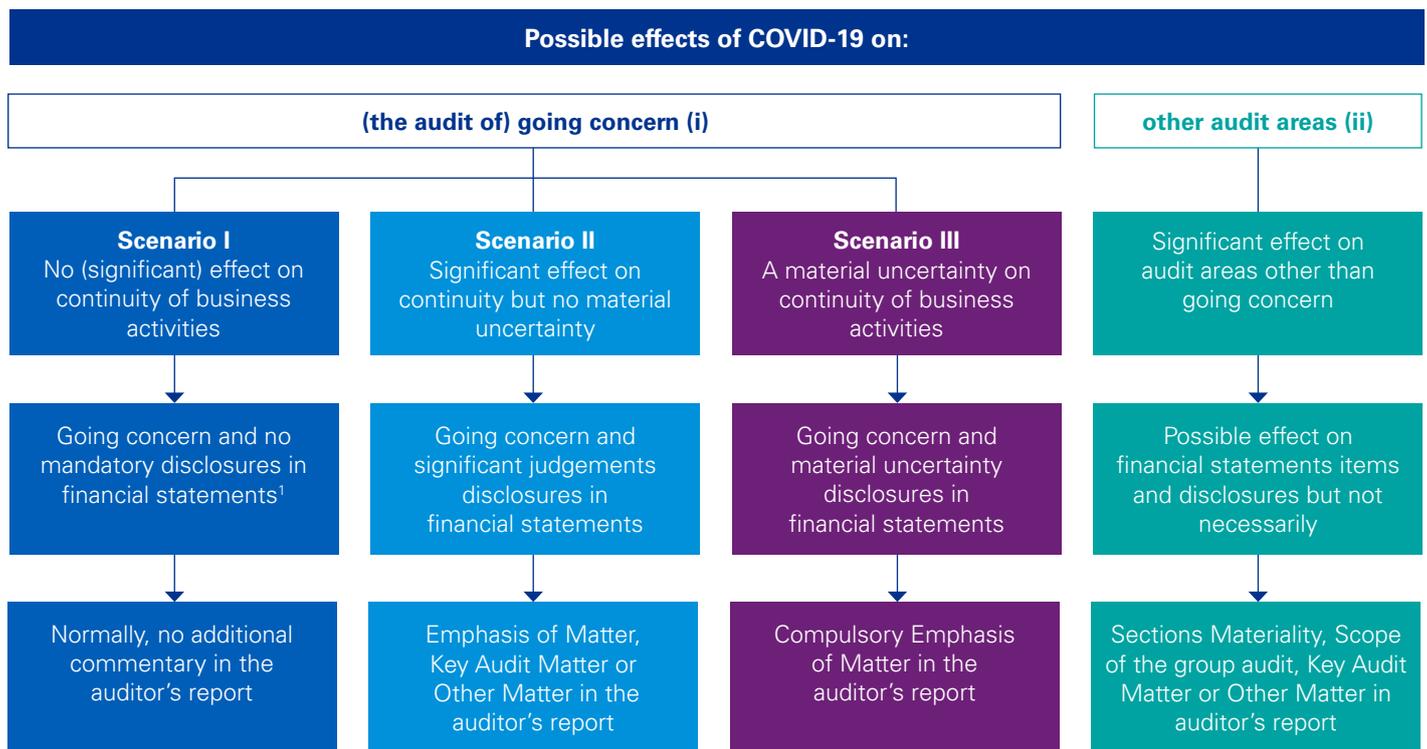
Uncertainties caused by COVID-19 may have a significant effect on the valuation of the company's assets and liabilities as well as the company's liquidity risk, including going concern. Therefore, providing transparent disclosures about the impact of COVID-19 on aforementioned items in the 2020 financial statements is of paramount importance. Management is responsible for adequately and fairly



disclosing the impact of COVID-19 on the financial statements specifically relating to the valuation of the company's assets and liabilities and the company's ability to continue as a going concern in accordance with the applicable financial reporting framework. Please refer to our KPMG COVID-19 Dutch GAAP and International financial reporting websites for example disclosures and further guidance in this respect.

The auditor is responsible for addressing aforementioned issues in the audit and for expressing an opinion whether the financial statements are fairly presented. This includes communicating on how COVID-19 affects the audit through the auditor's report.

The auditor's communication regarding COVID-19 impacts focuses on two areas: (i) the possible effects of COVID-19 on (the audit of) the companies' ability to continue as a going concern and (ii) the effect on other audit areas:



**What are the possible effects of COVID-19 on (the audit of) going concern according to above diagram?**

The diagram above illustrates the most common scenarios. It does not include the exceptional situation where the company is no longer considered to be a going concern and as a result should prepare its financial statements on a liquidation basis.

**In scenario I**, COVID-19 has no significant effect on going concern and there are no mandatory disclosures in this respect<sup>1</sup>. There are many instances in practice where this is the case. No additional commentary in the auditor's report by way of either an Emphasis of matter or Other Matter paragraph would normally be necessary.

<sup>1</sup> Although there may be no explicit financial statement disclosure requirements in this scenario, users of the financial statements may find it useful to understand how COVID-19 affected, or did not affect, the entity. A company can choose to voluntarily provide such disclosure, eg in a note discussing liquidity risk.

**Scenario II** describes a “close call” situation in which significant judgements should be disclosed in the financial statements. Although, the impact on going concern is significant, it does not result in a material uncertainty. In this case, the auditor may:

- Voluntarily emphasize this in its auditor’s report through a voluntary Emphasis of Matter Paragraph (‘EoM’).
- Include a Key Audit Matter (‘KAM’) to communicate about the impact of COVID-19 on its audit of the close call, in case of public interest entities (OOBs) and other listed entities, or where there is no extended auditor report being issued, e.g. for non-listed entities, through an Other Matter Paragraph (‘OM’).

**In scenario III**, there is material uncertainty with respect to going concern that should be disclosed in the financial statements. When the impact of COVID-19 results in a material uncertainty with respect to the continuity of the company’s activities, auditing standards require the auditor to emphasize this in the auditor’s report through a compulsory Emphasis of Matter Paragraph.

In all the instances, the opinion is unqualified, but in scenarios II and III the auditor voluntarily (II) or mandatory (III) adds a paragraph to the auditors’ report to explain the impact of COVID-19 on (the audit of) going concern to the users of his report.

### What are the possible effects of COVID-19 on other audit areas?

In the **scenario other audit areas** (see diagram), COVID-19 significantly impacts audit areas other than the audit of going concern but does not necessarily impact financial statements items and/or disclosures. For instance, the impact of COVID-19 on the audit due to:

- effects on the physical and psychological condition of both the company’s personnel and the audit team,
- potential changes (or even deficiencies) in the company’s internal controls,
- increased risk of errors and fraud,
- impact on determining materiality as a result of volatile results and
- communication between group and component auditors.



From an auditor communication perspective the auditor may:

- For public interest entities (OOBs) and other listed entities communicate about such impact through several sections in the auditor’s report (Materiality, Scope of the group audit, KAMs) or an OM.
- For other entities: communicate about such impact through an OM.

### How does KPMG in the Netherlands communicate about COVID-19 through the auditor’s report?

In case of a close call going concern, **scenario II**, we will – in line with 2019 audits - communicate about the impact of COVID-19 through a KAM in case of OOB’s or other listed entities and via an OM in other situations. Considerations for doing so include amongst other:

- Communication through an OM can be compared with KAMs that are compulsory for OOBs (Dutch public interest entities) and other listed entities. KAMs provide more detailed insight into the audit process and the auditor’s judgement.
- Via an OM, the auditor can communicate about the impact on its audit and its evaluation of the adequacy of the COVID-19 related going concern disclosures considering the unprecedented level of future uncertainties.
- Recently issued guidance of the Dutch professional body, NBA, about communicating on the impact of COVID-19 on the audit.

We use – in line with audit standards - the compulsory Emphasis of Matter paragraph (**scenario III**) in cases of a material uncertainty with regard to the ability to continue as a going concern for the foreseeable future (typically at least 12 months from the date of the auditor's report)

So, we make a distinction between an EoM in cases of material uncertainty (**III**) and an OM in cases where further analysis about the going concern assumption is warranted, but ultimately the conclusion is drawn that no material uncertainty exists (**II**). Our purpose is to clearly distinguish the two different scenarios and emphasize the impact of COVID-19 on the audit of the going concern assessment.

For the scenario that COVID-19 has no (significant) effect on the continuity of business activities (**scenario I**), we consider including an EoM or OM not appropriate. Again with the purpose to assist users in distinguishing between the different levels of impact which COVID-19 has on the company's ability to continue as a going concern.

Significant effects of COVID-19 on **other audit areas** are:

- In case of OOB's and other listed entities, always communicated by us as users of these entities' financial statements proclaimed such information as very useful. Significant effects on audit areas reflected in specific sections of the auditor's report (Materiality, Scope of the group audit, Fraud/Noclar or KAMs) are communicated through these sections and when not related to one of these sections via an OM. This way, we achieve communicating more entity specific and, therefore, valuable information about our audit to users.
- In other situations, communicated by us through an OM only when considered as relevant for that specific case and resulting into valuable information about our audit for users.



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